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Keeping you informed on personal legal affairs



QUICK REFERENCE: TAX INFORMATION FOR MILITARY TAXPAYERS – 2002 & BEYOND

	SELECTED HIGHLIGHTS	COMMENT
INCOME TAX	<p>--Lower income tax brackets: 2002-03 - 10%; 15%; 27%; 30%; 35%; & 38.6%</p> <p>--Filing dates: 15 April 2003, unless overseas – 16 June</p> <p>--Advance Earned Income Tax Credit (EITC) – Starting in 2002, earned income for EITC no longer includes non-taxable income (such as military housing allowances and combat excluded pay). Any military taxpayer with at least one qualifying child, expects their 2002 AGI will be less than \$29,201 (\$30,201 if filing jointly), and expects to be eligible to claim the EITC on their 2002 return can apply for advanced EITC to be paid monthly during 2002. An eligible taxpayer can get up to \$1,503 in advanced EITC, or \$125.25 per month. The military taxpayer simply has to complete a W-5 (PDF) and file that with Finance. Also see IRS EITC Overview.</p> <p>--Frequent flyer miles earned on official travel– not income; not taxed. If you earn frequent flyer miles on government-connected travel do not include the value in your income. This does not apply to travel or other promotional benefits that are converted to cash, to compensation that is paid in the form of travel or other promotional benefits. IRS Announcement 2002-18, 2002-10 I.R.B. 621. The National Defense Authorization Act for Fiscal Year 2002 (P.L. 107-107), section 1116 permits Federal military or civilian employees to accept as frequent flyer miles earned when traveling in an official capacity. For military the Joint Federal Travel Regulation was revised, and can be found at http://141.116.74.201/regchgs.htm.</p> <p>--Home Sale: military taxpayers may exclude up to \$250,000 (\$500,000 if married filing jointly) realized on sale of home if during 5-years before sale you owned home for at least 2 years, and lived in it as main home for at least 2 years. See IRS Pub 523, Selling Your Home.</p> <p>--Combat zone tax benefits (on Legal Services): military members serving in a combat zone may exclude certain pay from income tax; obtain other benefits. Tax Relief For Troops In Afghanistan Combat Zone; IRS created a special e-mail address, mailto:combatzone@irs.gov, for inquiries from combat zone taxpayers. Current combat tax zones in 2002:</p> <p>Afghanistan area - Executive Order No. 13239 designated Afghanistan (and airspace above) beginning September 19, 2001.</p> <p>Kosovo area - Executive Order (EO) No. 13119 and Public Law 106-21 designated these locations (including air space above) as a combat zone and a qualified hazardous duty area (QHDA) beginning March 24, 1999: Federal Republic of Yugoslavia (Serbia/Montenegro); Albania; The Adriatic Sea; & The Ionian Sea—north of the 39th parallel (including all of airspace in connection with Kosovo operation.) Also see Public Law 104-117 Effective 21 November 1995, QHDA: Bosnia and Herzegovina, Croatia, or Macedonia so long as service members are entitled to receive imminent danger/hostile fire pay under 37 U.S.C. § 310 for service in that location.</p> <p>Persian Gulf area – EO No. 12744 designated these locations (and airspace above) as a combat zone beginning January 17, 1991: The Persian Gulf; The Red Sea; The Gulf of Oman; The part of the Arabian Sea that is north of 10 degrees north latitude and west of 68 degrees east longitude; The Gulf of Aden; and The total land areas of Iraq, Kuwait, Saudi Arabia, Oman, Bahrain, Qatar, and the United Arab Emirates.</p> <p>--Reservists/New Enlistees May Get Deferral for Back Taxes.</p> <p>--IRS Tax Tips – see a list of IRS news releases & fact sheets.</p>	<p>--Stay current on tax changes year-round - free e-letters keep you up to date: TaxPlanet & Quicken.</p> <p>--Withholding Calculator – IRS' easy-to-use calculator can help you figure your 2002 Federal income tax withholding so you do not withhold too much. This is particularly helpful if you have had too much or too little withheld in the past (e.g., over \$500 refund or over \$500 tax bill), your situation has changed, or you are starting a new job. Use DFAS Employee/Member Self-Service site to change your withholding.</p> <p>--Refund status: 1-800-829-4477</p> <p>--IRS Record Keeping; How Long Do I Keep Paperwork? How Long & Which Tax Records to Keep</p> <p>--IRS Amended Returns</p>
EDUCATION	<p>--Coverdell Education Savings Accounts (ESA) Can Make Education Costs Less Taxing: 2002 Tax Law Changes: Education Incentives; annual contribution limit \$2,000 per child. No deduction for contributor, but money grows tax-deferred and tax-free if used for qualified education expenses (elementary and secondary school expenses).</p> <p>Contribution phase-out ranges (adjusted gross income): Single \$95,000 - \$110,000; Married \$190,000 - \$220,000</p> <p>Elementary & secondary school expenses qualify.</p> <p>Contributions may be made up until the original due date of the tax return (normally April 15 of the next year).</p> <p>--College Saving Plans or Section 529 Plans earnings are tax exempt starting in 2002 when used to pay for qualified higher education expenses (e.g., tuition, room and board, books and fees, and any other expenses that students are required to pay to attend any accredited college or university in the US). For more information: see Save for college and beat the tax man, or visit SavingforCollege.com which offers a free online Tax Update [PDF] and has information on Section 529 Plans generally; call 1-877-277-6496 or go to CollegeSavings.org. Also see An Education in College Savings or Kiplinger.com's Miracle Grow - A powerful new mix of tax breaks can fortify your college savings.</p>	<p>--Use to save money for estimated college costs</p> <p>--Consider Coverdell ESAs for qualified elementary & high school education expenses</p> <p>--Contributions may be made to Coverdell ESAs and Section 529 Plans in the same year for the same beneficiary.</p> <p>--IRS Pub 970, Tax Benefits for Higher Education</p>

This document is best viewed online because of embedded hyperlinks.

Prepared 26 April 2002

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RETIREMENT	<p>--Thrift Savings Plan (TSP) /401(k) contribution limit: \$11,000 in 2002.</p> <p>--IRA contribution limit \$3,000 in 2002 (up from \$2,000 last year). Special "catch-up" provision for savers 50 and over to invest up to \$3,500. IRS Pub 590, Individual Retirement Arrangements Low- and moderate-income taxpayers who contribute to IRAs or the military TSP may take a tax credit for the first \$2,000 in contributions and generally is based on adjusted gross income:</p> <table border="1"> <thead> <tr> <th>Credit</th> <th>Single</th> <th>Married Filing Jointly</th> </tr> </thead> <tbody> <tr> <td>50%</td> <td>\$0-\$15,000</td> <td>\$0-\$30,000</td> </tr> <tr> <td>20%</td> <td>\$15,001-\$16,250</td> <td>\$30,001-\$32,500</td> </tr> <tr> <td>10%</td> <td>\$16,251-\$25,000</td> <td>\$32,501-\$50,000</td> </tr> </tbody> </table> <p>--Contributions continue to be deductible or excludable from income as under previous law. The credit is available in 2002-2006.</p> <p>--Learn more: 2002 Tax Law Changes: IRAs Retirement Plans [PDF]; IRS' Roth IRAs: Is Roth IRA Right for You? ThirdAge Guide to Retirement Planning: ChoosetoSave.org – retirement saving guidance & calculators; some mutual fund companies offer info online; ASEC Savings Tips: New Tax Law Offers More Retirement Savings Options for Workers; From FEDWeek, How to Build a Retirement Portfolio; A LifeAdvice e-Alert (from MetLife): Are you optimistic about your retirement savings?</p>	Credit	Single	Married Filing Jointly	50%	\$0-\$15,000	\$0-\$30,000	20%	\$15,001-\$16,250	\$30,001-\$32,500	10%	\$16,251-\$25,000	\$32,501-\$50,000	<p>--Contributions to Military TSP are not taxed in year contributed. They lower your taxable income in contribution year. Next open seasons to enroll: May 15 through July 31 & November 15 through January 31.)</p> <p>--Use DFAS Employee/Member Self-Service site to enroll in TSP during open seasons</p>
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ESTATE	<p>--The 2001 Tax Act gradually eliminates the estate tax by increasing the amount that is exempt from tax over several years, reducing the top rate over several years, and finally repealing the estate tax for individuals dying in 2010. Under current law: no gift tax and no estate tax on the first \$1,000,000 of combined transfers during life or at death, for gifts made and individuals dying in 2002. The 2001 Tax Act increases the exemption in later years, rising to \$3.5 million in 2009, before full repeal in 2010 only. Only the estate tax exemption amounts rise above \$1,000,000. The gift tax exemption remains at \$1,000,000, and the gift tax is not repealed in 2010. Unless Congress changes the law, the estate and gift tax system will return in 2011, with the exemption back to \$1 million for both purposes.</p> <p>--In 2010, no estate tax; top gift tax rate: 35%. (Under current law, the top estate and gift tax rates revert to 55% in 2011.)</p> <p>--Will you owe estate taxes?</p> <p>--Highlights of 2002 Tax Law Changes</p> <p>--The Right Estate Plan for You</p> <p>--Legal Services – Estate Planning information Center</p>	<p>--Review your will and related estate plan documents to ensure your assets pass as desired.</p> <p>--(Re-) Evaluate life insurance needs</p> <p>--Individuals who may have an estate over the increasing exemption amount (or the \$1,000,000 amount that will apply for 2011 after estate tax is restored one year after it is repealed) should consult an experienced estate planner.</p> <p>--Keep records on cost basis of assets</p>												
	<p>Visit Legal Services, the Army Judge Advocate General's Corps' preventive legal information home page, Tax Information Center or one of these:</p> <ul style="list-style-type: none"> Internal Revenue Service (IRS) http://www.irs.gov/; IRS Pub 3, Armed Forces' Tax Guide; IRS Pub 17, Your Federal Income Tax; IRS Implements New Tax Relief For Victims Of Terrorist Attacks; IRS Tax Law Questions – ask the IRS by e-mail. State tax forms Tax Centers: CNNmoney Tax Center; SmartMoney.com's Tax Center; Quicken Tax Center; New York Times' Tax Guide; Kiplinger.com' Tax Center Prudential Financial Advice & Planning, includes What the Economic Growth and Tax Relief Reconciliation Act of 2001 May Mean to You covering these four areas: Income Tax, Estate Tax Planning, Education Funding, & Retirement Planning. Taxplanet's Tax Guide to The Act; Summary Of Provisions Contained In The Conference Agreement For H.R. 1836, The Economic Growth And Tax Relief Reconciliation Act Of 2001 (Prepared by the US Congress Joint Committee on Taxation) [PDF] From the Alliance for Investor Education, the Securities Industry Association, How You Can Profit from the Tax Law Changes [PDF]. 	<p>Consult a legal assistance attorney or use one or more of these sites for more information.</p>												

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